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FARM FINANCIAL SITUATION

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With few exceptions, the overall financial condition of Ohio's farming sector continued to deteriorate during 1986. Due primarily to lower land values and aging buildings and equipment, the seemingly inexorable decline in total assets continued. Although significantly less than each of the two previous years, the $1.7 billion loss in 1986 was agonizing for Ohio's agricultural community.

Deliberate debt reduction, a primary objective of most farmers during 1986, coupled with voluntary and involuntary write-offs on the part of lenders, resulted in a $700 million decline in farm debt. Owner equity thus declined by $1 billion during 1986.

Despite the reduction in asset value, the solvency position (debt-to-asset ratio) of Ohio's farm sector improved in 1986 after steadily deteriorating for five years. The improvement was due largely to the rapid reduction in debt. The improved liquidity that began two years ago continued in 1986 because of increased government payments, reduced expenses, and reduced debt.

Table 1 Ohio Farming Sector Balance Sheet, December 31, 1980-86

Item	1980	1981	1982	1983	1984	1985^{P}	1986^{E}
ASSETS ($ Billion)							
Real Estate	29.5	26.1	23.9	22.8	17.8	16.0	14.9
Non-Real Estate	8.6	8.5	8.8	8.5	8.5	7.9	7.3
Total Assets	38.1	34.6	32.7	31.3	26.3	23.9	22.2
CLAIMS (% Billion)							
Real Estate Debt	2.8	3.0	3.1	3.1	3.1	2.7	2.1
Non-Real Estate Debt	1.9	2.1	2.1	2.0	1.9	1.7	1.4
CCC Loans	0.1	0.1	0.3	0.1	0.1	0.5	0.7
Total Debt	4.8	5.2	5.5	5.2	5.1	4.9	4.2
Equity	33.3	29.4	27.2	26.1	21.2	19.0	18.0
RATIOS (%)							
Debt/Asset	12.6	15.3	16.8	16.7	19.5	20.5	18.9
Net Income/Debt	12.4	5.5	6.9	0.4	17.9	15.5	19.0

P = Preliminary, E = Estimated

The financial performance of a farm business usually depends on its solvency (debt-to-asset ratio) and liquidity position (the ability to service debt and pay family living expenses). In 1986, despite the now seven-year-old farm recession, most Ohio farms (87%) were not experiencing financial stress. Stress is defined as the condition in which a farm has both a negative cash flow and a debt/asset ratio above 0.4.

Thirty-nine percent of all farms had no debt outstanding at the end of 1986. This was not the case, however, for commercial farms. Only 10% of the largest farms and 17% of the middle-size farms were without debt. Small farms were more likely to have cash flow problems but less likely to have excessive debt/asset ratios (above .4). Commercial farms (sales above $40,000) were more likely to have troublesome solvency ratios but less likely to experience negative cash flows. Stressed farms were found in all sales categories, but the incidence of stress (negative cash flows and a debt/asset ratio above 0.4) diminished as farm size increased. Thirteen percent of all farms were experiencing stress, whereas only 4% of the largest (sales above $250,000), 11% of the middle-size (sales $40,000-$250,000), and 13% of the small (sales below $40,000) farms were in the stress category.

Table 2 Liquidity, Solvency, and Stress Position[1]
Ohio Farms, December 1986

	Liquidity Category[2]			Solvency Category[3]			Stress Category	
Item	1	2	3	1	2	3	Stress[4]	No Stress
				- - - - Percent of farms - - - -				
FARM SIZE								
All Farms	40	22	38	39	37	25	13	87
Sales Above $250,000	68	24	8	10	55	35	4	96
Sales $40,000 to $250,000	54	23	23	17	43	40	11	89
Sales Below $40,000	30	22	48	53	31	16	13	87
FARM TYPE								
Grain	40	22	38	34	36	30	16	84
Tobacco	40	0	60	40	30	30	30	70
Other Crops	29	14	57	51	24	25	17	83
Beef, Hog, Sheep	33	25	43	52	35	12	7	93
Dairy	55	25	20	25	42	32	13	87
Other Livestock	41	17	43	17	63	20	0	100

1 Source: USDA 1986 Farm Cost and Return Survey
2 Categories based on net cash/gross cash where (1) = over .2, (2) = .001 to .2, (3) = 0 or less.
3 Categories based on total debt/total assets where: (1) = 0 debt, (2) = .1 to .4, (3) = over .4.
4 Farm is in each category 3.

Cash flow problems were most pronounced on tobacco and other crop farms; the small size of these farms was likely a major contributing factor. Livestock farms had the next most common occurrence of negative cash flow (43%); this was largely the result of high feed prices and low livestock prices during most of 1986. Nearly 4 out of 10 grain farms (38%) reported negative farm business net cash income.

Dairy farms exhibited the best liquidity position with only 20 percent in category three.

Beef, hog, and sheep farms had the best solvency position (12% in category 3). Nearly one-third of the operations classified as dairy, tobacco, or grain were burdened by high debt/asset ratios in 1986. Financial stress (negative cash flow and over .4 debt/asset ratio) was least common on livestock farms (7%) and most common on tobacco farms (30%). Financial stress was evident on 13% of the dairy and 16% of the grain farms.